

**SOUTHWEST DELAWARE COUNTY  
MUNICIPAL AUTHORITY  
FINANCIAL STATEMENTS**

*For the Years Ended December 31, 2011 and 2010*

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
YEARS ENDED DECEMBER 31, 2011 AND 2010

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# Zelenkofske Axelrod LLC

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Southwest Delaware County Municipal Authority

We have audited the accompanying financial statements of the Southwest Delaware County Municipal Authority (the "Authority"), as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southwest Delaware County Municipal Authority as of December 31, 2011 and 2010, and the results of its operations and cash flows for the years ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 to 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standard Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



ZELENKOFKSKE AXELROD LLC

Jamison, Pennsylvania  
April 24, 2012

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SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2011

This section presents management's discussion of the financial condition and operating performance of the Southwest Delaware County Municipal Authority (the "Authority") over the course of fiscal year 2011 and comparison to fiscal year 2010. Please read this analysis in conjunction with Authority's financial statements included with this document.

**SUMMARY OF THE ORGANIZATION:**

The Authority is a municipal corporation created by Aston Township under the Pennsylvania Municipal Authorities Act of 1945, as amended, (Act) for the purpose of financing, engineering, and constructing the public sanitary sewer system.

The Aston Township Commissioners appoint a seven member Board of Directors to staggered five year terms. The Authority hires its own employees and professional advisors.

The Authority is an operating authority under the Act. The Authority owns and maintains the treatment works and collection system within its service area. The Authority through contractual and inter-municipal agreements acts as the treating agency for several bordering municipalities.

The Authority owns and maintains a treatment and collection system that consists of over 63 miles of collection system piping and a 6.0 million gallon design capacity treatment plant.

The Authority has no taxing power under the Act, but relies on sewer rental rates and charges imposed under the Act. Tapping fees, connection fees, and other service charges may be assessed for connections to the system. These fees are not generally included in budget forecasts until developers agreement has been executed with the Authority.

**FINANCIAL AND ADMINISTRATIVE COMMENTS:**

The Authority in fiscal year 2004 changed its customer billing format from a standard flat charge per equivalent dwelling unit to a usage rate based upon two components. The new rate structure was designed to enhance the revenue of the Authority to meet operational expenses and to reflect charges based on system utilization. The base charge or flat rate is assessed to each customer that maintains a connection to the system. The second portion of the rate is based on water usage as reported by the supplier of the potable water.

The financial statements adequately reflect the Authority's financial position at the end of fiscal year 2011.

The Authority meets all terms of the trust agreement and other borrowings and the change in the amount owed (a reduction of \$905,000 total debt) is a direct result of scheduled payments and refinancing.

A summarized comparison of the Authority's statements of revenues, expenses and changes in net assets for the years 2011 and 2010 follows:

Operational expenses were 29% greater than budget estimates. Revenue met the forecasted budget estimate.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2011

The following table compares fiscal year 2011 operations to fiscal year 2010 and reflects an improved financial condition. The Authority realized a reduction in operating expenses and increased operating income. The change in net income is a result of improved collection of the billed revenue and the decrease in operating expenses.

The decrease in operational expense is a result of improved operations and was achieved despite increases in employee benefit costs, contractual services and maintenance. Some of the decrease can also be attributed to the normal purchasing cycle and a further reduction in contracted service costs.

**Statements of Revenues, Expenses and Changes in Net Assets**

	2011	2010
Operating Revenues	\$ 5,685,369	\$ 5,645,250
Operating Expenses	5,314,622	5,476,270
Operating Income (Deficit)	370,747	168,980
Net Profit/Loss	(233,939)	(367,946)
Increase (Decrease) in Net Assets	(233,939)	(367,946)
Net Assets beginning of year	2,621,418	2,989,364
Net Assets at end of the year	2,387,479	2,621,418

The assets of the Authority exceeded its liabilities by approximately \$2.4 million. Restricted Net Assets of \$688,093 were restricted by legal requirements and were not available to finance the day-to-day operations of the Authority. Unrestricted Net Assets were \$3.3 million.

The largest change in Assets was a decrease of Account Receivable of approximately \$652,000. During 2009, the Authority implemented a change to the billing frequency from annually to quarterly. This created confusion in the customer base and resulted in a less than normal collection rate. During the past year, the Authority has implemented new collection procedures to increase the collection rate and reduced the outstanding Accounts Receivable balance.

**Statements of Net Assets**

	2011	2010
Current and other Assets	\$ 3,277,915	\$ 2,692,785
Capital Assets	11,572,070	12,177,879
Total Assets	16,463,212	17,647,088
Noncurrent Liabilities	12,445,057	13,463,883
Current Liabilities	1,630,676	1,561,787
Total Liabilities	14,075,733	15,025,670
Net Assets:		
Invested in Capital	(1,566,436)	(1,704,495)
Restricted	688,093	593,551
Unrestricted	3,265,822	3,732,362
Total Net Assets	2,387,479	2,621,418

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2011

## OVERVIEW OF ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis is an introduction to the basic financial statements. The MD&A represents management's analysis of the Authority's financial condition and performance.

The financial statements include:

Statements of net assets – This statement will help the reader determine if the Authority's financial picture is better or worse as a result of this year's activity.

Statements of revenues, expenses and changes in net assets – This statement presents the results of business activities during the fiscal year and the amounts representing a change in net assets.

Statements of cash flow – Reports changes in cash and cash equivalents resulting from operations, capital, financing and investment activities.

Notes to financial statements – These statements provide additional information to fully understand the data presented.

### Capital Acquisitions

The Authority's investment in capital assets includes the Sewer System and equipment. Capital acquisitions are recorded at cost. Acquisitions are funded by available reserves and debt.

Southwest Delaware County Municipal Authority's investment in capital assets as of December 31, 2011 and 2010, net of accumulated depreciation, was as follows:

	<u>2011</u>	<u>2010</u>
Plant and System	\$ 11,363,765	\$ 11,944,227
Administration Building	75,070	75,070
Maintenance Equipment	77,233	83,577
Office Equipment	28,635	47,638
Construction in Progress	<u>27,367</u>	<u>27,367</u>
Capital Assets Net of Accumulated Depreciation	<u>\$ 11,572,070</u>	<u>\$ 12,177,879</u>

During the year ended December 31, 2011, the Authority expended \$49,499 on capital assets. Additional information on capital assets can be found in Note 4 to the financial statements.

### Debt Administration

As of December 31, 2011, the Authority had total long term debt outstanding of \$14,415,000. This amount represents obligations incurred by the Authority under the Sewer Revenue Bonds Payable, Series of 2009, and constitutes a refinancing of a previous obligation.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2011

The Authority's Outstanding Debt as of December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Bonds Payable	\$ 14,415,000	\$ 15,320,000
	<u>\$ 14,415,000</u>	<u>\$ 15,320,000</u>

Additional information on the Authority's long-term debt can be found in Note 6 to the financial statements. The Authority's debt is secured by the sewer receipts and revenues.

### **Economic Factors and Next Year's Budgets and Rates**

Southwest Delaware County Municipal Authority is continuing its efforts to improve its financial position, by increasing its revenues and containing its expenses. The Authority has completed a standardization of billing rates for commercial customers. The Authority is focused on reducing outstanding delinquencies, especially with rental accounts, which comprise the vast majority of the customer base. The Authority is utilizing all available methods to improve its collection rate including quarterly delinquent/final notices, property liens and potable water service disconnection.

The Authority continues to monitor disbursements and take steps to reduce all expenses where possible.

The 2012 Budget includes a line item for the expenses related to the Corrective Action Plan and Connection Management Plan, as required by the PA DEP. The 2012 Budget also includes line items for capital improvements to the plant and collection system to allow for a safe and efficient operation throughout the year. The addition of these line items to the 2012 budget has resulted in a moderate rate increase of \$0.52 per thousand gallons of water consumed, effective with the April 2012 billing.

The Authority recognizes that the current economic climate may adversely impact its customers but it believes that the programs it has enacted will enable it to sustain its financial goals and objectives.

### **Requests for information**

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning the information provided or requests for additional information may be addressed to: Cecelia Nelson, Controller, Southwest Delaware County Municipal Authority, Post Office Box 2466, One Gamble Lane, Aston, PA 19014-0466.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
 STATEMENTS OF NET ASSETS  
 DECEMBER 31, 2011 AND 2010

Assets	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and Cash Equivalents - Unrestricted	\$ 419,830	\$ 383,234
Accounts Receivable		
Sewer Rentals	2,730,000	1,968,903
Pretreatment	121,049	298,107
Assessments	33,000	36,000
Other Services	58,844	69,399
Allowance for Doubtful Accounts	(153,927)	(153,927)
Prepaid Insurance	69,119	91,069
Total Current Assets	<u>3,277,915</u>	<u>2,692,785</u>
Restricted Assets		
Assets Limited as to Use - Held by Trustee	<u>688,093</u>	<u>593,551</u>
Capital Assets, At Cost		
Construction in Progress	27,367	27,367
Property, Plant and Equipment	27,272,253	27,222,754
Accumulated Depreciation	<u>(15,727,550)</u>	<u>(15,072,242)</u>
Total Capital Assets	<u>11,572,070</u>	<u>12,177,879</u>
Assessments - Noncurrent	208,514	223,067
Sewer Rentals - Noncurrent	1,192,749	2,405,128
Allowance for Doubtful Accounts	(900,414)	(905,005)
Deferred Bond Costs, Net	<u>424,285</u>	<u>459,683</u>
Total Noncurrent Assets	<u>925,134</u>	<u>2,182,873</u>
Total Assets	<u>\$ 16,463,212</u>	<u>\$ 17,647,088</u>

The accompanying notes are an integral part of the financial statements.



SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
STATEMENTS OF NET ASSETS (CONTINUED)  
DECEMBER 31, 2011 AND 2010

Liabilities and Net Assets	<u>2011</u>	<u>2010</u>
<b>Current Liabilities</b>		
Accounts Payable	\$ 142,332	\$ 272,094
Bonds Payable - Current Portion	1,150,000	905,000
Accrued Interest Payable	201,244	208,785
Accrued Expenses	67,164	64,527
Other Liabilities	18,066	16,802
Deferred Revenue	51,870	94,579
<b>Total Current Liabilities</b>	<u>1,630,676</u>	<u>1,561,787</u>
<b>Noncurrent Liabilities</b>		
Compensated Absences Payable	32,266	26,826
Bonds Payable - Long Term Portion, Net of Deferred Loss on Refunding of \$852,209 and \$977,943 in 2011 and 2010, Respectively	<u>12,412,791</u>	<u>13,437,057</u>
<b>Total Noncurrent Liabilities</b>	<u>12,445,057</u>	<u>13,463,883</u>
<b>Total Liabilities</b>	<u>14,075,733</u>	<u>15,025,670</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	(1,566,436)	(1,704,495)
Restricted	688,093	593,551
Unrestricted	<u>3,265,822</u>	<u>3,732,362</u>
<b>Total Net Assets</b>	<u>2,387,479</u>	<u>2,621,418</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 16,463,212</u>	<u>\$ 17,647,088</u>

The accompanying notes are an integral part of the financial statements.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 FOR THE YEARS ENDING DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Sewer Rentals	\$ 4,976,360	\$ 4,941,468
Other Operating Revenue	709,009	703,782
Total Operating Revenues	<u>5,685,369</u>	<u>5,645,250</u>
Operating Expenses		
Salaries	1,223,395	1,288,878
Benefits Including Payroll Taxes	699,453	672,933
Contractual Services	627,241	669,745
Depreciation and Amortization	690,706	690,774
Utilities	563,030	535,824
Insurance Expense	92,927	95,333
Maintenance and Materials	1,345,371	1,394,773
Fines and Fees	30,638	108,284
Other Expenses	41,861	19,726
Total Operating Expenses	<u>5,314,622</u>	<u>5,476,270</u>
Operating Income	<u>370,747</u>	<u>168,980</u>
Nonoperating Revenues (Expenses)		
Assessment and Connections	44,497	140,820
Interest on Assessments	20,922	16,152
Interest Expense	(619,278)	(645,612)
Investment Income	1,700	2,669
Miscellaneous Expense	(52,527)	(50,955)
Total Nonoperating Expenses	<u>(604,686)</u>	<u>(536,926)</u>
Net Loss	<u>(233,939)</u>	<u>(367,946)</u>
Net Assets, Beginning of Year	<u>2,621,418</u>	<u>2,989,364</u>
Net Assets, End of Year	<u>\$ 2,387,479</u>	<u>\$ 2,621,418</u>

The accompanying notes are an integral part of the financial statements.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 5,482,345	\$ 4,266,268
Cash Paid to Suppliers	(3,231,641)	(2,935,141)
Cash Paid to Employees	(1,220,758)	(1,283,962)
Other Revenues	<u>542,184</u>	<u>651,807</u>
Net Cash Provided by Operating Activities	<u>1,572,130</u>	<u>698,972</u>
Cash Flows from Capital and Related Financing Activities		
Purchases/Disposal of Capital Assets	(49,499)	(10,078)
Disposal of Construction In Progress	-	49,042
Deferred Loss from Refunding	125,734	133,036
Principal Payments of Bonds Payable	(905,000)	(340,000)
Bond-Issue Costs Amortization	35,398	35,397
Assessments and Connections	44,497	140,820
Interest Paid on Water Revenue Bonds	<u>(714,744)</u>	<u>(622,876)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(1,463,614)</u>	<u>(614,659)</u>
Cash Fows from Investing Activities		
Investment Income	1,700	2,669
Interest on Assessments	20,922	16,152
(Increase)/Decrease in Assets Limited as to Use - Held by Trustee	<u>(94,542)</u>	<u>(330,516)</u>
Net Cash Used in Investing Activities	<u>(71,920)</u>	<u>(311,695)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	<u>36,596</u>	<u>(227,382)</u>
Cash and Cash Equivalents at Beginning of Year	<u>383,234</u>	<u>610,616</u>
Cash and Cash Equivalents at End of Year	<u>\$ 419,830</u>	<u>\$ 383,234</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Income from Operations	\$ 370,747	\$ 168,980
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	690,706	690,774
Add (Deduct) Changes in Non-Cash Working Capital:		
(Increase)/Decrease in Accounts Receivable	651,857	(71,002)
Decrease in Allowance for Bad Debt	-	(91,068)
Increase in Prepaid Expenses	21,950	8,334
Increase/(Decrease) in Accounts Payable	(129,762)	9,777
Increase in Accrued Expenses	8,077	17,353
Increase in Other Liabilities	1,264	2,598
Decrease In Deferred Revenue	<u>(42,709)</u>	<u>(36,774)</u>
Net Cash Provided by Operating Activities	<u>\$ 1,572,130</u>	<u>\$ 698,972</u>

The accompanying notes are an integral part of the financial statements.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Southwest Delaware County Municipal Authority (the "Authority") is a body corporate and politic, organized and existing under the laws of the Commonwealth of Pennsylvania. It was incorporated on December 16, 1957 under the Municipal Authorities Act of 1945, being the Act of May 2, 1945, P.L. 382 as amended, pursuant to an ordinance duly enacted by the Board of Commissioners of the Township of Aston, to improve, maintain, operate, own, lease either in the capacity of lessee or lesser, sewer, sewer systems or parts thereof and sewage treatment works for treating and disposing of industrial waste in and for the Township of Aston and for such territory as it may be authorized to serve.

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principals as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Authority are described as follows:

A. Reporting Entity

The Authority has adopted the provisions of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards for the criteria used to evaluate the organizations, activities and functions that should be included in the Authority's financial statements. The basic criteria are the exercise of oversight responsibility over such organizations, activities, and functions.

The Authority has not identified any entities which should be subject to evaluation for inclusion in the Authority's reporting entity.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority's financial statements are prepared on the full accrual basis of accounting in accordance with accounting principals generally accepted in the United States of America. Under this basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. The Authority applies Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principal Board (APB) of the Committee of Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

All activities of the Authority are accounted for within a proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primary through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2011 AND 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into: "invested in capital assets, net of related debt"; "restricted for debt service"; and "unrestricted" components,

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses not meeting this definition are reported as nonoperating revenues and expenses.

When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Authority's policy to apply those expenses to restricted net assets to the extent that such are available and then to unrestricted net assets.

C. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all unrestricted securities with an original maturity of three months or less to be cash equivalents.

D. Sewer Rentals Receivable

The Authority provides continuous services to its customers. Except for residents of Upper Chichester Township, Middletown Township and Upper Providence Township, billings are provided to customers on a quarterly basis for the quarterly calendar period immediately preceding the date of the bill.

The Authority bills the sewer authorities of Upper Chichester Township, Middletown Township and Upper Providence Township on a semi-annual basis on the first day of January and July of each year for the semi-annual calendar period immediately preceding the date of the bill.

The Authority recognizes uncollectible accounts at the time they are deemed to be uncollectible. The Authority is performing collection efforts and is in the process of filing liens on properties with delinquent amounts.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2011 AND 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets Limited as to Use – Held by Trustee

Assets limited as to use are restricted assets which consist principally of cash and cash equivalents of funds established pursuant to the terms of the Trust Indenture for specific purposes and uses under the Trust Indenture, including debt service, maintenance, capital expenditures and trust administrative expenses.

F. Capital Assets

Capital Assets are stated at cost. Expenditures for maintenance, repairs and betterments that increase the service capacity or prolong the service life beyond that originally contemplated are capitalized. Upon retirement or disposal, the cost of the asset is removed from the respective accounts and any gain or loss recognized is included in the statement of revenues and expenses. Capital Assets are capitalized with a \$5,000 threshold. Property, plant and equipment are being depreciated using the straight-line method over the useful lives of the assets.

<u>Asset</u>	<u>Years</u>
Plant, Expansion, Infrastructure and Pump Stations	20-40
Buildings	40
Equipment	3-15

G. Bond Issuance Costs

Bond issuance costs are amortized over the life of the bond issue, on the straight line method. Amortization expenses for the years ended December 31, 2011 and 2010 were \$35,398 and \$35,397, respectively.

H. Deferred Revenue

Income from Connection Fees is deferred and not recognized until settlement has been completed on the new homes. As of December 31, 2011 and 2010, deferred revenues were \$51,870 and \$94,579, respectively.

I. Compensated Absences

Employees of the Authority are entitled to paid vacation, paid sick days and personal days off, depending on the length of service and other factors. Although not all employees are part of the union contract, the Authority provides for compensated absences for all employees according to the union contract.

As of December 31, 2011 and 2010, the liabilities for compensated absences were \$32,266 and \$26,826, respectively.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2011 AND 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Related Party Transactions

The Aston Township Board of Commissioners appoints the Authority board members. Legal and professional fees associated with their action against the Southern Delaware County Authority flow diversion litigation are being split equally between Aston Township and the Authority.

K. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

L. Financial Instruments

The estimated fair value of the Authority's financial instruments, which include accounts receivable, accounts payable, and notes payable, approximate their carrying values based on their short-term maturities and prevailing market interest rates.

M. Adoption of Governmental Accounting Standards Board (GASB) Statements

The Authority adopted the provisions of GASB's Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This adoption of this statement had no effect on previously reported amounts.

The Authority adopted the provisions of GASB's Statement No. 59 "Financial Instruments Omnibus." This adoption of this statement had no effect on previously reported amounts.

N. Pending Governmental Accounting Standards Board (GASB) Statements

The Governmental Accounting Standards Board has issued GASB's Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans." This statement is required to be adopted by the Authority for the year ending December 31, 2012. The Authority has not determined the effect of GASB's Statement No. 57 on the financial statements.

The Governmental Accounting Standards Board has issued GASB's Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements." This statement is required to be adopted by the Authority for the year ending December 31, 2012. The Authority has not determined the effect of GASB's Statement No. 60 on the financial statements.

The Governmental Accounting Standards Board has issued GASB's Statement No. 61, "The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34." This statement is required to be adopted by the Authority for the year ending December 31, 2013. The Authority has not determined the effect of GASB's Statement No. 61 on the financial statements.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2011 AND 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Pending Governmental Accounting Standards Board (GASB) Statements (Continued)

The Governmental Accounting Standards Board has issued GASB's Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre – November 30, 1989 FASB and AICPA Pronouncements." This statement is required to be adopted by the Authority for the year ending December 31, 2012. The Authority has not determined the effect of GASB's Statement No. 62 on the financial statements.

The Governmental Accounting Standards Board has issued GASB's Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This statement is required to be adopted by the Authority for the year ending December 31, 2012. The Authority has not determined the effect of GASB's Statement No. 63 on the financial statements.

The Governmental Accounting Standards Board has issued GASB's Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions." This statement is required to be adopted by the Authority for the year ending December 31, 2012. The Authority has not determined the effect of GASB's Statement No. 64 on the financial statements.

The Governmental Accounting Standards Board has issued GASB's Statement No. 65, "Items Previously Reported as Assets and Liabilities." This statement is required to be adopted by the Authority for the year ending December 31, 2013. The Authority has not determined the effect of GASB's Statement No. 65 on the financial statements.

The Governmental Accounting Standards Board has issued GASB's Statement No. 66, "Technical Corrections – 2012 – an amendment of GASB Statement No. 10 and No. 62." This statement is required to be adopted by the Authority for the year ending December 31, 2013. The Authority has not determined the effect of GASB's Statement No. 66 on the financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and investments as of December 31, 2011 and 2010 are classified in the accompanying financial statements as follows:

	2011	2010
Cash and Cash Equivalents	\$ 419,830	\$ 383,234
Assets held by trustee	<u>688,093</u>	<u>593,551</u>
Total cash and investments	<u>\$ 1,107,923</u>	<u>\$ 976,785</u>



SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2011 AND 2010

## NOTE 2: CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's policy is to place deposits only in Federal Deposit Insurance Corporation (the "FDIC") insured institutions. Deposits in excess of the FDIC limit are collateralized pursuant to Commonwealth of Pennsylvania Public Law 72 of 1971, which allows depositories to satisfy collateralization requirements by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. As of December 31, 2011, of the Authority's \$1,206,020 bank balance, \$501,467 was covered by FDIC and \$704,553 was exposed to custodial risk as they were collateralized with securities held by the pledging financial institution and uninsured.

## NOTE 3: ACCOUNTS RECEIVABLE – ASSESSMENT FEES

The Authority installed sanitary sewer mains and related appurtenances in the Northwest section of Aston Township for the benefit of the owners or property in that area of the Township. The owners were required by an ordinance of Aston Township to connect to the sewer system and pay for the assessment of the sewer construction over a period of thirty years. To ensure payment, management has filed liens against property owners refusing to connect.

## NOTE 4: CAPITAL ASSETS

For the years ended December 31, 2011 and 2010, depreciation expense amounted to \$655,308 and \$655,376 respectively. Capital Asset activity for the years ended December 31, 2011 and 2010 were as follows:

	2011		
	<u>Beginning Balance</u>	<u>Increases (Decreases)</u>	<u>Ending Balance</u>
Non-Depreciable Assets:			
Construction in Progress	\$ 27,367	\$ -	\$ 27,367
Depreciable Assets:			
Plant and System	25,586,660	29,471	25,616,131
Administration Building	207,819	-	207,819
Maintenance Equipment	1,171,970	20,028	1,191,998
Office Equipment	256,305	-	256,305
	<u>27,222,754</u>	<u>49,499</u>	<u>27,272,253</u>
Less: Accumulated Depreciation			
Plant and System	13,642,433	609,933	14,252,366
Administration Building	132,749	-	132,749
Maintenance Equipment	1,088,393	26,372	1,114,765
Office Equipment	208,667	19,003	227,670
	<u>15,072,242</u>	<u>655,308</u>	<u>15,727,550</u>
	<u>\$ 12,177,879</u>	<u>\$ (605,809)</u>	<u>\$ 11,572,070</u>

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2011 AND 2010

## NOTE 4: CAPITAL ASSETS (CONTINUED)

	2010		
	Beginning Balance	Increases (Decreases)	Ending Balance
Non-Depreciable Assets:			
Construction in Progress	\$ 76,409	\$ (49,042)	\$ 27,367
Depreciable Assets:			
Plant and System	25,576,582	10,078	25,586,660
Administration Building	207,819	-	207,819
Maintenance Equipment	1,171,970	-	1,171,970
Office Equipment	256,305	-	256,305
	<u>27,212,676</u>	<u>10,078</u>	<u>27,222,754</u>
Less: Accumulated Depreciation			
Plant and System	13,031,497	610,936	13,642,433
Administration Building	132,749	-	132,749
Maintenance Equipment	1,063,257	25,136	1,088,393
Office Equipment	189,363	19,304	208,667
	<u>14,416,866</u>	<u>655,376</u>	<u>15,072,242</u>
	<u>\$ 12,872,219</u>	<u>\$ (694,340)</u>	<u>\$ 12,177,879</u>

## NOTE 5: DEFERRED BOND COSTS

As required by GASB Statement No. 23 for proprietary funds, the Authority is required to defer the difference between the net carrying amount of the defeased debt and the reacquisition price of the new debt. The deferred amount is being amortized as an element of interest expense on a straight-line basis over the life of the refunding debt. For the years ended December 31, 2011 and 2010 the amounts charged to expense were \$35,398.

## NOTE 6: BONDS PAYABLE

	1/1/2011 Balance	Additions	Reductions	12/31/2011 Balance	Due Within One Year
	Bonds Payable	\$ 15,320,000	\$ -	\$ (905,000)	\$ 14,415,000
	<u>\$ 15,320,000</u>	<u>\$ -</u>	<u>\$ (905,000)</u>	<u>\$ 14,415,000</u>	<u>\$ 1,150,000</u>
	1/1/2010 Balance	Additions	Reductions	12/31/2010 Balance	Due Within One Year
	Bonds Payable	\$ 15,660,000	\$ -	\$ (340,000)	\$ 15,320,000
	<u>\$ 15,660,000</u>	<u>\$ -</u>	<u>\$ (340,000)</u>	<u>\$ 15,320,000</u>	<u>\$ 905,000</u>

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2011 AND 2010

## NOTE 6: BONDS PAYABLE (CONTINUED)

Bonds Payable as of December 31, 2011 is as follows:

<u>Series</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Principal Balance</u>
Sewer Revenue Bonds Series A	2010 to 2024	2.00 % to 3.850%	\$ 12,940,000
Sewer Revenue Bonds Series B	2010 to 2024	2.00 % to 3.850%	<u>1,475,000</u>
			14,415,000
Less Deferred Loss on Refunding			<u>(852,209)</u>
			13,562,791
Less Current Portion			<u>(1,150,000)</u>
			<u>\$ 12,412,791</u>

The Authority issued Guaranteed Sewer Revenue Bonds, Series A and B of 2009 (the 2009 Bonds), dated October 22, 2009, in the amount of \$15,660,000. The purpose of the issues were to refund the Authority's Guaranteed Sewer Revenue Bond Series 1998, refund two outstanding Pennvest loans, refund the Series of 2008 Note issued to TD Bank, as well as provide the funds for the cost of issuance.

The 2009 Bonds bear interest rates from 2.00% to 3.850% and are due from August 1, 2010 to August 1, 2024. Interest is payable semi-annually on February 1<sup>st</sup> and August 1<sup>st</sup>. All interest and principal payments have been paid when due.

Under the terms of a Trust Indenture, the Authority pledges and assigns all of the receipts and revenues from the Sewer System as security for its obligation to make payments under the Indenture.

In connection with the issuance of the 2009 Bonds, the Township of Aston (the Township) agreed to provide to the Trustee a Guaranty Agreement, the terms of which provided for, among other things, an unconditional guaranty by the Township of the payment of principal, interest, and insufficiencies of the debt service reserve fund related to the Bonds.

Following are maturities and interest of the 2009 Bond debt through to maturity:

<u>Year ended December 31,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 1,150,000	\$ 482,985
2013	1,175,000	457,110
2014	1,220,000	415,110
2015	1,060,000	371,548
2016	1,085,000	339,748
2017-2021	5,460,000	1,166,850
2022-2024	<u>3,265,000</u>	<u>249,953</u>
	<u>\$ 14,415,000</u>	<u>\$ 3,483,304</u>

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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NOTE 7: RETIREMENT PLAN

The Authority's retirement plan is a defined contribution plan, which provides benefits at retirement for all full-time employees who work twenty hours or more per week, are at least twenty-one years of age and have performed one year of service. The Authority contributes an amount equal to five percent of the annual gross salary of the covered employees. Employees can also contribute an amount not to exceed ten percent of their salary. Contributions made by the Authority and employees for year ending December 31, 2011 and 2010 were \$51,258 and \$50,714, respectively.

NOTE 8: COMMITMENTS AND CONTINGENCIES

The Authority leases equipment under operating lease agreements which require monthly payments ranging from \$24 to \$239 and expire at various times through December 2013. Rent expense under all operating leases for the years ended December 31, 2011 and 2010 were \$4,767 and \$3,488, respectively.

The following is a schedule of future minimum lease payments required under the operating leases, as of December 31, 2011:

<u>Year Ending December 31,</u>		
2012	\$	2,864
2013		<u>2,268</u>
	\$	<u>5,132</u>

During 2002 and 2003 the Authority was determined to be out of compliance with the United States Environmental Protection Agency (the "EPA") regulations for discharge into Chester Creek. On September 30, 2003, the EPA submitted a "finding of violation and order for compliance" to the Authority and has not imposed a fine, but has reserved the right to do so. The Authority's management has corrected the issues and the Authority is now in compliance.

In March 2007, the Pennsylvania Department of Environmental Protection ("PA DEP") requested a Corrective Action Plan (CAP) with respect to surcharges at the Kingsmill site located on Route 452 Aston, Pennsylvania. The Authority complied with the request and submitted the CAP to the PA DEP. This process will take approximately 6 to 12 more months to complete. The outcome of the claim cannot be determined at this time.

The Authority is currently participating in EPA hearings dealing with Authority discharge into the Chester Creek Watershed. The EPA is currently in the "information gathering stage".

NOTE 9: SUBSEQUENT EVENTS

The Authority has evaluated all subsequent events through the report issue date of April 24, 2012. No events have taken place that effect the financial statements or require disclosure.